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What-there-is-in-it

Buffalo

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What-There-Is-In-It

A PRACTICAL PRIMER ON
"CURRENCY REFORM"

The Partlan Book Company
Buffalo

What-There-Is-In-It

A Practical Primer On "Currency Reform"

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INTRODUCTION

"It appears to be a natural law," says Brooks Adams in his "Civilization and Decay," "that when social development has reached a certain stage, and the capital has accumulated sufficiently, the class which had the capacity to absorb it shall try to enhance the value of their property by legislation."

The several schemes of one purpose known collectively as "Currency Reform" have for their object the enhancing of the profits of what are known as "national" banks, distinctive institutions of the capitalist class, now in control of the country's legislation. At present these "national" banks have the privilege, by deposit of Government bonds, of having ninety per cent of the bonds' par value returned to them in the shape of national bank legal-tender currency, upon which they pay but one per cent while obtaining

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interest both upon the bond and the currency. This privilege is what fixes the market price of bonds, the premium representing the present worth of the aggregate profit of the use of bonds for the time they are to run, more than the interest upon the money invested otherwise than in bonds. The profit is approximately the bond interest less one per cent.

"Currency Reform" is being promoted by a "bureau" whose headquarters are in Indianapolis, and by the influence of bankers locally. Inasmuch as many millions profit is expected, many thousands have liberally been subscribed to the bureau. The "bureau" employs a large corps of representatives to "manufacture sentiment," get "Currency Reform" endorsed by political conventions, who know less of what they are indorsing than of the finances of China, and to influence members of Congress. In the Congressional campaign of 1898 large sums of money were sent out to such candidates as would accept them in the guise of campaign funds to assist in trying elections, in consideration for which a large part of the Congress then elected may be considered as safely pledged to anything that may be put forward. In the case of Mr. Walker of Massachusetts who refused the "assistance" it was made evident that the sum offered to him had then been used to defeat him, in which use it was successful.

Currency Reform Schemes

THE BALTIMORE PLAN.

The "Baltimore Plan" proposes to revoke the requirement of deposit of bonds and permit national banks to issue freely money up to fifty per cent of their paid up capital. They would be required to pay only a tax of one half of one per cent. They would also be allowed to issue twenty-five per cent more at a "heavier tax," not stated.

Supposing the "heavier tax" to be so near a normal rate of interest as not to be profitable except with good demand, the effect of this plan would be to add about thirty-five per cent to the earnings of the bank at first, and a like amount to the value of its stock. This would not last as competition would put the interest down and there would be a mushroom crop of wildcat banks, inflation and panic. A man would lose by having money in his possession or debts payable to him in currency. A man would gain if in debt and having to pay money, which would then be cheaper.

CARLISLE'S PLAN.

Carlisle's plan is to allow banks to issue notes equal to seventy-five per cent of their capital, with a tax of one half of one per cent. They would be required to place thirty per cent in Government greenbacks in the Treasury. This would have approximately the same results as the Baltimore plan.

THE M'CLEARY BILL.

The McCleary Bill permits a bank to deposit forty per cent of its capital in bonds and obtain double the amount, or eighty per cent of its capital in notes, which will be full legal tender. $200,000, instead of the $50,000 as at present, is the minimum capital permissible. Banks who do not get "in it" the first year must dissolve. Between the fourth and eighth year after the passage of the bill, bonds are to be returned in yearly payments until no deposit remains. As with an increase of capital to 180 per cent larger risks would have to be taken, resulting in failures in which the whole of eighty per cent would in the average

case, not remain, there would be a prejudice against such notes, to nullify which it is provided that all greenbacks are to be exchanged into the same kind of notes.

This bill would give a bond the permanent power of obtaining about eleven per cent in addition to its own interest. Consequently the maximum competitive value of a $100 four per cent bond, at a banking margin of seven per cent, would be about $214. From this amount a large discount must be made for inflation, lower rate of interest, failures, panic or political change. So thoroughly informed and organized is the labor movement today that such concentration of wealth would hardly be allowed to reach its climax without interference and fights.

The McCleary Bill was reported from the Committee on Banking and Currency in 1898 and recommended to the House. It was smothered by conservative bankers and Republican politicians aided by Speaker Reed. It is said to have been abandoned.

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GAGE'S PLAN.

The recommendations of Secretary of the Treasury Gage which passed the House in 1898 were to permit banks to draw out notes to the full amount of their bond deposits and reduce the tax from one to one-fourth per cent. This would make a three per cent bond of the 1898 issue draw:

Three per cent on $100 bond.	$3.00
Six per cent on $100 in notes	6.00
	$9.00
Less expenses	.10
1-4 per cent on $100.....	.25
Interest on $100 cash.....	6.00
	$6.35

The profit would be $2.65 for ten, possibly twenty years. This would give at simple interest, a maximum premium worth of 116 1-2 to 3 per cent bonds as against 108 1-2 now. The bill also included a clause legislating the redemption of greenbacks for gold on demand and was defeated in the Senate because the majority of its members then advocated Free Silver and feared the gold basis. Such is not now the case.

THE ATLANTIC CITY PLAN.

The Atlantic City Plan is given out as adopted by the House Committee at a conference at Atlantic City, and to be presented in the 1899 session. This plan makes into a law the Treasurer's policy of giving gold for greenbacks whenever demanded. This part is honest. It does not reduce the one per cent tax but permits banks to issue notes up to the full amount of their bond deposit. It allows banks to organize with a capital of $25,000 instead of $50,000. This is to conciliate and put in line smaller people, especially in the South and West, who have been kicking.

The interest on the ten per cent would add sixty cents to the yearly profit of the bond. Compound it for the number of years the bond has run, and divide by one dollar compounded for the same time. This will give you the increase in the bond's value. In 1925 bonds it is a little more than six per cent.

Copies of proposed bills and information may be had through your Congressman. Any bill requiring a basis of bonds, will immediately reflect the profit in the bonds. Competition will force them up to an eight or seven per cent basis. To find the real value add the interests obtainable upon a $100.00 bond and the note issue it is good for. Subtract interest on the original investment to buy bond, with expenses. The profit remains. Multiply by number of years, or better, compound it, and divide by $1.00 and its interest for the same time. You have maximum premium. Allow one to three per cent for risk and bank profit.

These plans in no way relieve the competition that caused the supposed lack of profit to National Banks today, and will force the price up in the same proportion it bears to profit now. On the other hand it provides, in $25,000 banks, more competition. Banks will profit only by the number of bonds they own (not rent). The talk about elasticity is food for the gullible. Except with very large inflation interest rates will not be lowered

nor profits upon note issuing increased. As the bonds are chiefly held by banks they will get nearly all the profits. The government has out about one billion dollars in bonds. Their combined terms are equal to one million for 11,000 years. As the Atlantic City plan increases the profit sixty cents per hundred, or $6,000 per million per year, the total profit would be $66,000,000 to earn which $37,000,000 may be invested in extra premiums in bonds. The banks will get the most of that. As the bonds are inventoried at the market price in the quarterly report, the profit will immediately show an increase the value of the bank's stock.

The price of the 1898 three per cents recently went up three points, from a normal price of 107, to 110. With listlessness of Congress they have gone down a little, and are at this writing 109 1-2. Opposition to the extension of National Bank profits comes from banks not "in it" who would be put at a disadvantage. There is a three-cornered fight between the national banks, state banks and trust companies. A bill entitled the Payne

INTENTIONAL SECOND EXPOSURE

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Banking Law allowing State Banks to issue notes on capital was put up in the Senate by T. C. Platt last year. Gage, Hanna, Platt and many others are presidents of National Banks. Should the "Atlantic City" pass easily, it is probable some big profit scheme will be launched.

The Government's bonds now outstanding with date of maturity, total extra profit to be earned by Atlantic City plan, and increases in present worth thereby, are:

25 million 2 per cent Optional...	?	?
500 million 4 per cent of 1907..	$26,880,000	$18,162,000
100 million 5 per cent of 1904....	3,000,000	2,307,000
162 million 4 per cent of 1925....	25,272,000	9,871,000
200 million 3 per cent of 1908....	10,800,000	7,013,000
	$65,925,000	$37,353,000

THE PROBABLE AND THE POSSIBLE

Information being valuable, but little of it is given out. The House has only thirteen Republican majority, and what with the recent wildness of parties and general dissolution from straight partisanship, cannot be depended upon to pass party measures. The Atlantic City Plan, involving no reduction of the tax, shows in appearance, no loss to the government, and will undoubtedly be supported by democrats desiring stability of the gold guarantee, which is now optional with the administration. If its opponents are shrewd enough to detect the real loss and denounce it distinctly it may not pass. This they are not likely to do, their minds being too well filled with enthusiasms over silver. The Party is pledged to the banks to put through "currency reform," having put it in their platforms and collected contributions thereon. It is probable that at least so much as is contained in the Atlantic City Plan will be passed. The Senate and President are safe for any "plan."

There is a possibility of more drastic "reform." A great amount of money was put out by the party to elect the present House. The great bulk of the Republican side is under full political control, and a large number of democrats are friendly to the banks. Many of the shrewd and free-talking radicals have been retired. Mr. Reed, who has been the most effective opponent of big-profit schemes has accepted a position at $50,000 a year with a comparatively unknown law firm, one of whose members is a nephew of one of the political managers of the "plans." The general belief that the offer was simply to get him out of the way of "Currency Reform" has gone even into Associated Press stories.

In his place has been put forward by the party management a man concerning whom the following appeared in the New York Times of June 10th, 1899.

Mr. Babcock expressed his gratification with Henderson's nomination for Speaker. "Being chairman of the Committee

charged with submitting a draft of a bill to carry out the ideas of the Republican Party on Currency Reform," said Mr. Babcock, "Col. Henderson can be depended on to do all he can to further legislation in that line."

In the event of the passage of a law requiring no basis of bonds, or a "free banking" plan, bank shares will rise phenomenally. They should be disposed of before they reach a climax, as they may go down very suddenly. The phenomena of such an era may be learned by a study of the Wild Cat Bank period and hard times of 1837. Persons not over spry should keep as little currency in hand as possible, and no debts, changing their assets into some solid form of wealth, as a farm, which cannot be hurt by money changes, and should keep it there, regardless of temptations.

Bonds are for sale all the time on the New York Stock Market in any quantities. Their prices are listed daily in the financial columns of Conservative Class city papers. They may immediately be bought through any broker, in New York or any other town, at 1-16 or one-eighth per cent commission, or through a bank. Among reliable dealers who can buy bonds for you are:

Henry Clews & Co., 11-17 Broad St., N.Y.
Vermilye & Co., Nassau and Pine St., N.Y.
Kissam, Whitney & Co., 17 Broad, N.Y.
Fisk & Robinson, 36 Nassau St., New York.

Stocks of many banks of various cities are for sale on the New York Stock Market and may be bought through any broker. Stocks of local banks are easily obtainable through city brokers.

Bonds and national bank shares are to be found in the hands of conservative people locally, not familiar with contemplated changes, from whom they may probably be bought with more profit than in the market where changes are understood. Immediately after the bank's statement showing its profit from the

rise in bonds, bank shares should be sold. as they will then have a fictitious value due to some people's ignorance of the fact that such a dividend is not due to skilled management and will not occur again.

Mr. J. H. Walker of Massachusetts, Committee Chairman and, in a general way, superintendent of the Currency Reform movement, was defeated in the 1898 election. Believing his defeat to have been accomplished by the use of the Indianapolis Currency Reform fund maintained to assist Congressmen in that election, on account of his inaptness in reporting their measures, he made a lively speech upon leaving Congress. March 25, 1899, in which he said:

Mr. Speaker: I want to say a word or two in reference to the Indianapolis Commission. I wish to speak freely upon it, and also with reference to the chairman of the committee, Mr. Hanna, as well as of the extra-persistent lobbyists they have employed about the Capitol. Let me say, to begin with, I have never met a man who impressed me more favorably that Mr. H. H. Hanna of Indiana. I

do not think I have ever met one who impressed me more forcibly as to his integrity and intensity of purpose to accomplish a great reform than he. I shall certainly indulge in no unnecessary personal criticism of him. I want to say, also, that the two gentlemen he employs about the Capitol to secure reform legislation in banking and currency, also impressed me favorably. . . . .

Again Mr. Hanna says in his remarkable letter: "Plans will be formulated in due time in order that the business men of the country may supplement the regular organization for work, in the weak legislative and Congressional districts."

Aha! Why should not every member of Congress who desired re-election support the Hanna bill-by-adoption (H. R. 10289) when they knew there was $50,000, $100,000, perhaps $200,000, behind their re-election? Where a man did not pledge himself to support the bill, so far as my information goes, his defeat was desired by Mr. Hanna, as is shown by the extracts from the letters read. . . .

I have been over these papers very carefully and 57 strongly "pledged their unqualified support" on the floor of the House to the bill H. R. 10289 (McCleary bill). Now I believe that there has been some suggestion, some means used, of course honorable, to conclude this question before its consideration is begun, and that it emanates from the very enthusiastic but injudicious members of the Monetary Commission, Mr. Hanna, or men who are operating here for him. I have the highest regard for Mr. Hanna, as I have for Mr. Guthridge, but I have observed the mistaken way they have lobbied this House, taking men by the buttonhole and begging and pleading with them to support a bill neither the member nor themselves understood. I spent a month of solid time trying to understand this bill, H. R. 10289, and there were four questions I could not myself solve. After my study of the bill I wrote to the authors of it the following letters, and not one of them attempted to meet the

challenge. . . . Yet they vote for a bill of which it may be said that a large part of the facts they use are derived from canvasback and terrapin and their arguments from champagne, and the result of their bill if enacted would be to continue the robbery of the farming sections of our country. This is my statement of it to this House and the country.

Mr. Walker showed that the M'Cleary Bill had been illegitimately reported under political directions, not having been adopted by his committee; and that the committee chosen to prepare bills for the 1899-1900 session had been selected entirely from a list pledged to vote for the M'Cleary Bill.

EXPRESSED INFORMATION

Concerning the chances of "Currency Reform" the following statements have recently appeared in The Bankers' Magazine:

The Bankers' Magazine is published by Bradford Rhodes & Co· at 78 William St., New York. Price $5 the year; 50 cents the copy.

"During the fiscal year 1898 the deficit was thirty-eight millions. The deficits of the two years have not yet exhausted the amount borrowed on the war loan authorized by Congress. If the war with the Filipinos continues, as there now seems every reason to believe it will do, there will, during the next year or two probably be a recurring deficit that will have to be supplied by loans. That there will be any material reduction of the public debt for a number of years to come does not seem probable. Undoubtedly the revenues will continue to increase, but with the prospect of the continuation of an expensive war in the Philippines, and the further prospect of a large expenditure in aid of an interoceanic canal, the United States is very

likely to continue to enlarge its debt for some years to come.

"This situation of things will no doubt make conditions more favorable for the issue of national bank circulation even under the present law. If, however, Congress shall enlarge the limit of circulation to be issued on bond security from ninety to one hundred per cent, the national banks could afford an important increase in their circulation, large enough to encourage legislation for the retirement of the legal-tender notes. It would be still better if Congress shall make the market rather than the par value the basis of circulation issues."

"If during the next ten or twelve years the bonded debt of the country shall increase, it is probable that the circulation question may settle itself. It certainly would under such circumstances were Congress disposed to direct the gradual retirement of legal-tender notes."

"It is likely that the United States will in the end follow the same policy in

regard to its debt as that pursued by other borrowing nations. There will probably be a cessation of the sentiment calling for the immediate payment of the principal of the debt. Whenever the revenues exceed the expenditures, the favorable balance will be applied to the reduction of the debt, but there will be an increase in the debt whenever a deficit is the result of the year's transactions.

"In the event of continued prosperity of the country, it would be better policy to reduce taxes from time to time than to keep up taxes under the pretext of paying off the debt rapidly."

"The prospects of currency legislation at the next session of Congress seem to be very promising at this time. The committees appointed by the House and Senate to consider and propose some course of monetary legislation seem to have about agreed upon certain propositions, and if these are introduced when Congress meets, it is now announced that

the Administration will use all its influence to secure their enactment into law."

CREDIT PLANS SHELVED

OCTOBER FIRST. At the recent assembly of the American Bankers' Association, in Cleveland, the idea of note-issues based upon bank capital, vigourously advanced by some, was somewhat cold-shouldered generally. The direful failures of several great Montreal banks under such a system, with panic and popular uproar, has made more forcible their realization of the fact that to gain a profit upon the extra notes they must accept extra risks. Competition would reduce the interest on good risks and compel bids for the more doubtful ones now refused, resulting in the disadvantage of conservative banks and failures of the over-enterprising. Sentiment from other sources indicates the shelving of credit banking for some time.

The National Bank System, on the other hand, reduces the risks of the bank, by the difference between the market value and the $90 (see DISHONESTY OF 1898 BOND ISSUE page 95), while increasing profits. Extension upon its lines would be very acceptable, giving as it does a handsome interest on 107 to 130 dollars with risk only

upon 90; appears to be more easily obtainable; and is now all the go.

The Convention adopted resolutions demanding the legalizing of the Treasury's gold guaranty and retirement of Government greenbacks (see Chain-Breaker plan).

THE MARKET VALUE PLANS

A plan for allowing banks to issue notes up to the market value of their bonds, and another for allowing an issue of ninety per cent of that value have had much talk recently. Obviously, the market value would go up considerably under such circumstances. An accompanying table shows the figures. While the possibilities of the idea are "rich" enough, to one who does not or can not figure it out,—the position of the average Congressman,—they are likely to seem alarming. If any plan can be defeated it is probable either of these can.

THE "CHAIN-BREAKER" SCHEME

Under present laws a bond issue can be forced by bringing in enough greenbacks to the Treasury to deplete the gold reserve. But after it the Treasurer has a double stock of funds, one of greenbacks and another of gold. Therefore, if compelled by political troubles, the Administration, by

manipulating and getting the greenbacks changed into gold as they come in, can keep the reserve constantly out of reach. Likewise a bull interest can send in a load of gold when the Treasury is nearly depleted and the Market well scared, and squeeze the "exporters," whose inspiration lies in the result of bear operations. A possible fifth issue under Cleveland was supposed sadly to have been done up in this way, the doers getting marks as patriots. Treasury raiding has not been tried since.

Again, as a law requires that the notes brought in all shall be paid out again, each issue inflates the currency with the amount of bonds used as currency or to secure special currency. A one hundred million issue means fifty to eighty millions inflation, cheapening the assets of those who possess currency or contracts for the payment of currency. Thus the banks really pay their own profits. Continuous bond issues mean only an "endless chain" of inflation.

Now were the law requiring the re-issue of paper money brought in repealed, and the Treasurer instructed to destroy them instead, the Government's paper might be

collected and brought to the Treasury to force bond issues in rapid and sure succession until all the Government's non-interest-bearing currency had been replaced by bonds and the notes issued thereon by the banks,—the supposed object of Currency Reform, but without so great profits. Under the style "breaking the endless chain" this repeal has been urged by Presidents Cleveland and M'Kinley in nearly every message. By it the banks will get but little more than what profit the President graciously may bestow in his bond issues. It is considered a "good thing" for the Presidents. It has been put by until too late in the hope of getting something better through, or has been thrown in only as a side issue to something too profitable.

At the December '99 session, it is announced, a Currency Reform Bill will be brought up on the first day of the session in both chambers, and no member allowed to get through any other measure until Currency Reform has been settled. If nothing else can be gotten through, the Chain-Breaker with its necessary accompaniment of obligatory gold redemption will be insisted upon and forced through.

HOW TO DETERMINE VALUES

CIRCULATION TAX. A tax of one per cent the year is made upon the average of the amounts of the special currency outstanding at the end of each day. Treasury totals show that this tax is paid on about 96 per cent of the aggregate issue of National Bank notes. Other Treasury assessments make a total of just about one per cent on the hunred dollar bond. The average costs are approximately as follows:

One Per Cent Circulation Tax	.87
Cost of Redemption	.06
Charges, Plates, etc.	.01
Handling, Bookkeeping, etc.	.02
Assessment for Examiners	.09

The Assessment for Examinations properly represents the cost of a guarantee of sound banking and saves a State tax.

FINDING A VALUE. Add the bond's interest one year and the six per cent interest on the notes obtainable for the deposit of a hundred dollar bond.

From this sum subtract six dollars; the Tax on all circulation obtainable; and expenses,—if unchanged by new bill, 10 cents.

Devide the remainder by .06, finding the principal this profit is interest upon.

In a school arithmetic get the "amount of one dollar at compound interest" at 6 per cent for the years the bond has yet to run: find interest on this amount for any extra months and add in.

Multiply the "principal" found above by the compound INTEREST, the one dollar out.

Devide the result by the AMOUNT of one dollar as before found. This is the maximum premium worth over one hundred dollars. Allow 2 to 5 per cent off, to accord with length of term.

The note issuing privilege of National Banks is most valued by country banks, who place little value on the trouble and are satisfied with small and safe profits. The lowering of the capital requirement from fifty to twenty-five thousand dollars would attract a not too intelligent inrush of this class for bonds, advancing the market price to a point nearer the present worth.

CHAIN-BREAKER PLAN. The largest profits are to be made by "bearing the general market," or having a broker borrow and sell stocks for you before market is scared and buying to return when it is scared by bond issues. A broker will "sell short" ten $100 shares for a deposit of $30 Study movements of prices during Cleveland bond issues, '94—'96.

Bonds Outstanding in 1899.

Amount	Interest	Issued	Expire	Years yet to run, '99	Yearly Profit, $100	Aggregate Profits 6 p. c. Comp'd	Present Worth of Profits	Pres. Worth, current int. rates 5 p. c.	Approximate Normal Market Price	Price Se. 11 '99
$198,678,720	3s	1898	1918	19	$1.40	$47.26	$15.62	$18.13	107	109
			Op. 1908	9	"	16.09	9.52	10.66		
162,315,400	4s	1895-6	1925	26	2.40	141.20	30.99	35.94	129	131
100,000,000	5s	1894	1904	5	3.40	19.17	14.32	15.15	112	112
559,652,050	4s	1877	1907	8	2.40	23.75	14.96	16.16	113	114
25,364,500	2s	1891	(Optional)		.22		?		99	100 1-2
14,033,600	3.65	Dist. Col.	1924	25	2.05	112.48	26.26	30.30		117

THE "Yearly Profit" represents the excess of the sum of a $100 bond's interest plus the interest on $90 in National Bank currency obtained upon deposit of the bond over the interest on $100, the tax and expense.

The "Aggregate Profit" represents the amount of that profit for the number of whole years from the month of the bond's expiration in 1899 to the expiration, compounded annually. This amount devided by the amount of $1 at compound interest for the same time, gives the "Present Worth,"—the maximum premium over $100 whose investment would just bring back its own interest.

"Yearly Profit" does not represent the bank's profit as under ordinary circumstances they pay nearly the whole present worth of the profits as premium, making their gain infinitesimal,—averaging three-eighths of one per cent—a sum scarcely compensatory to the risks, especially the danger of a populistic action cancelling the note issuing privilege. The high price is due to the value of the standing as National Bank and competition among banks for them. It is also affected by the expectation of the passage by Congress of a measure increasing the profit of their note-issuing. Before this movement had been pushed the market price allowed one per cent profit. Considering the difference between the market price and circulation as the sole investment, the interest earned thereon is 8 per cent with Threes, 6 with old Fours, 6.5 with new Fours, 8.5 with Fives, at foregoing "normal" prices.

METHOD OF FIGURING

EXAMPLE: 4 per cents of 1907, the current rates of interest being 6 per cent.

Int. on $100 bond 1 year		4.00
6 p.c. on $90 Nat. Bank notes		5.40
		9.40
Expense, liberal figure	10	
1 p. c. tax on the $90	90	
6 p. c. on $100 investment	6.00	7.00
Profit above reg. int., 1 year		2.40

$2.40 (equals int. on $40) compounded yearly for 8 years gives total profits...23.75

$23.75 devided by 1.59,3848, the amount of a dollar at 6 per cent for 8 years, compounded yearly, gives 14.96 dollars, the present worth of the profits, making the maximum value of $100 1907 bonds $114.96

United States bonds are free from all taxation.

District of Columbia bonds also may be used to secure circulation.

Exact Maximum Premiums on $100 Bonds at 6 per cent compounded

	Threes 1908	Threes If 1918	Fours 1907	Fours 1925	Fives 1904
Present Bank Value	9.52	15.62	14.96	30.99	14.32
Value as 2 p. c. Currency	6.80	11.15	12.42	26.	12.63
Atlantic City Plan	12.92	21.20	18.	37.70	16.42
Gage's Plan	18.02	29.49	22.66	47.46	19.58
Market Value Plan	19.58	47.95	26.18	219.23 TOTAL	22.39
90 Per Cent M. V. Plan	13.72	31.37	20.68	75.22	17.69

Formulæ

ALL ORDINARY PLANS

A equals Amount of $1 at 6 per cent.
T equals Tax on circulation obtainable.

Premium is

$$\frac{(\text{B. I.} + \text{Int. on Notes} - \$6 - T - \text{Ex.}) \times (A - \$1) \times 100}{6 \times A}$$

MARKET VALUE PLANS

T equals tax on one hundred dollars.

Premium under Market Value Plan equals—

$$\frac{(\text{Bond Int.} - \text{Ex.} - T) \times (A - 1) \times 100}{6A - [(6 - T) \times (A - 1)]}$$

90 Per Cent Market Value Plan

$$\text{Prem.} = \frac{100\,(\text{B.I.} - \text{Ex.} - .9T - .60)\,(A - 1)}{6A - [(5.40 - .9T)(A - 1)]}$$

SENATE REFUNDING PLAN

OCTOBER FIFTEENTH. Recently there has been a sudden convulsion in bond prices. The long time bonds which had gone up in expectation of the great rise they would enjoy under former Currency Reform plans suddenly have declined sharply, while the formerly neglected Optional Twos and shorter term bonds have advanced.

This phenomenon was followed by the information that the Committee appointed from the Senate to devise a Currency Reform measure to report to the December session had decided upon a bill. The supposed framers of the new measure will give nothing out, stating that nothing is definite. There is information, however, which says that the plan is built of the following planks, some of may have to be cut adrift for navigation through the House.

1. Holders of any United States bonds are to be offered the privilege of having them changed into a new low rate short bond,—thirty year threes unless hereafter modified—at par for par, if they wish. Thirty year threes would be more valuable than

any outstanding bonds except the Cleveland fours.

II. Twenty-five thousand dollar banks, par value note issue, and reduction of tax to one fourth, possibly one eighth of one per cent,—the features of Gage's plan.

III. The Treasurer is compelled by this law to maintain intact a large gold reserve and to issue short term bonds when it goes down.

IV. Gold sent in by banks in exchange for gold certificates is to be held separately and not counted in the reserve ("Government a legal depositary" etc.)

V. The principal of the bonds is payable in gold on demand at any time, thus relieving the holders of all reponsibility and making them practically them the same as greenbacks in all except interest,—safer than the great majority. This should bring their market value nearer the maximum.

VI. Government greenbacks will be restricted to the popular denominations—ones, twos and fives—and National Bank notes to the higher ones. National Bank notes are not legal-tender and with present conditions could be injured by a popular boycott.

THE BUSINESS DEPARTMENT

Under this plan present bonds of all denominations could be turned in for a uniform bond with the following possible market value maximums.

Tax	1 p.c.	1-2	1-4	1-8
30 yr. 3s, par issue	118.6	123.5	126.0	127.2
90 per cent issue	113.7	118.2	120.3	121.4
25 yr. 3s, par issue	116.6	120.9	123.1	124.2
90 per cent issue	112.1	116.0	118.0	118.9

Thirty year bonds at 2 1-2 per cent are worth almost exactly the same as 25 year threes. It is not likely that anything less profitable will be proposed.

Par value issue is more easily obtainable than reduction of tax.

Bonds not exchanged would increase in value as under Gage's plan. (See page 28.)

This measure is an excellent solution for the Reformers' problem. It provides against the extinction of the National Banking system with the expiration of the present bonds and at the same time gives a large immediate profit, the thing most welcome. Apparently the Government is benefited by the reduced interest, which will be enough to satisfy the small patriots of limited vision.

Bond refunding schemes have been put through Congress several times since the Civil War without any difficulty. It is very probable that this measure if not overburdened with other matter will pass easily. It may—probably will be—exposed and denounced, but, as in the case of the notorious "Popular Loan" last year, that should not hurt its support any.

It is to be introduced in the Senate on the first day of the session. At present it seems that a different measure is to be introduced in the House. Perhaps they will get together before that time. Combination is the order of the day. Or it may be that a gold standard and greenback retirement bill simply will be put first through the House, and any extensive scheme reserved to be marked with the Senate majority's endorsement before offering to the uncertain popular body.

NOTES

There is an article on the Currency Reform outlook in the October Forum by Comptroller of Currency Dawes. It advocates the Chain-Breaker plan.

Assistant-Secretary Vanderlip has been in New York conferring with certain large bankers three times recently.

Little dependence should be placed upon the public statements of the politicians managing the movement. As before stated, information is valuable, very valuable.

EFFECT OF THE ELECTION

NOVEMBER TENTH. The returns from the election indicate that Bryan will have fewer votes in 1900 than he did in 1896,—barring the unforeseen. Again, the socialist element has become tired of Free Silver and suspicious of its backing, and is now openly declared against it. Toledo Jones intimate that he may run for President next year.

Therefore, profitable "reforms" may be put through with little to be feared. In the matter of personal profits the Free Silver force occupies a glass house. On the other hand they may be postponed. But there is more likelihood of an anti-bank House than President, and the best business men believe in "striking an iron while it is hot." This view is a good one inasmuch as the Senate is so constituted that it will protect the banks against a radical tide in 1900 and long enough thereafter to meet the return of conservatism and practically ensure permanency for the new laws.

We think that measures will be passed giving the banks just that taste of profit that will induce them to shell out liberally

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to congressmen, and to the national leaders, in the coming campaign, in the hope of the long-promised Big Prize of Free Banking or a scheme of the M'Cleary Bill's type; the which we do not expect ever to see passed. (Note phrases on page 18.)

GAGE IN THE STOCK MARKET

NOVEMBER TWENTIETH. The uncertainty and deception to be expected in the management of this movement by politicians and "financiers" is well illustrated by Secretary Gage's action of the 16th offering to buy 25 million short term fours and fives. For two weeks Gage and his assistants constantly have been denying, even ridiculing, any possibility of such action. On the 14th Gage said: "There is plenty of money for all legitimate business purposes. Whatever stringency may exist in New York has been caused by speculation." A little previous he was issuing manifestoes reiterating that a bank-note currency was the only useful one and that the Government's greenbacks should be retired.

This action was to give the bulls the confidence for attacking a fictitious money

stringency created by bear manipulation. Gage admits this. Stocks rose three points on the announcement, although few bonds have been sent in and those slowly.

Undoubtedly the action was excited by the influence of large financiers. Among the most enthusiastic endorsers of Gage's policy was the National City Bank, whose shares recently have risen from 420 to 2000 presumably on account of very profitable new arrangements. It controls the foreign exchange market and is alleged recently to have been threatening other banks with a gold export movement if interest rates were lowered. Rate-cutting then stopped.

The Chicago Chronicle speaks of an "alleged fact that Government officials were buying stocks heavily all day Wednesday (the 15th) in anticipation of the bond purchase announcement."

ANOTHER CHANGE-AROUND

The announcement appears to act as a signal to the speculative banks for the rise in long term bonds, as indicating a plan of the Atlantic City's lines rather than a profitable refunding scheme. The fours of 1925 went way up to 132, a point higher than they were after the adoption of the Atlantic

City plan last summer. Unknown parties amassed a block of 312,000 of them on the 17th. These are the bonds Cleveland sold for 104 1-2.

SIGNIFICANT PRESS ITEMS

"In view of the efforts that are to be made to secure bank reform legislation Mr. Henderson's selections for the Committee on Banking and Currency will be of the utmost importance. So many of the members of this committee failed of re-election that the new speaker will have little difficulty in making up a committee practically to suit himself, without being under the necessity of displacing men who were formerly among its members."—Associated Press, Nov. 13.

WATCH THE MESSAGE

"There is absolutely no doubt of the ability of the Republicans to pass a gold-standard bill. Of the 51 Republicans [in the Senate] not more than 3 or 4 will fail to align themselves with their party, and two of these defections will be offset by the votes of Caffery and Lindsay, Gold Democrats. The gold-standard bill will cer-

tainly have a majority of 10 when it comes to a vote.

"Much interest is expressed upon the position which the President will take upon this question in his message. If he recommends the enactment of a gold-standard law, his party will be practically unanimous. If, however, he does not take this stand, many Republicans will accept his failure as an excuse against such legislation on the eve of a presidential campaign."—Washington Post, Nov. 18.

WILL LAY A "FOUNDATION"

"The meeting of Congress next month revives interest in the subject of currency reform. The most recent suggestion as to the proper action to be taken is that the present Congress during the coming session can redeem the pledges of the Republican party in its national platform of 1896 by passing a simple bill affirming the gold-standard and enlarging the National bank currency based on bond issues, and perhaps providing for a refunding of the national debt. The other and to many minds equally important part of currency reform, namely the passage of a comprehensive banking bill which shall effectually eradi-

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cate the defects of the present monetary system, it is proposed to postpone until after the next presidential election in 1900. The idea is that the Radical discussion of the banking question on the eve of a presidential election would tend to stir up so many animosities that many members of the present Congress looking for re-election would fear to act upon their real convictions and give only a half-hearted support. The success of the Republican party might also be seriously jeopardized.

"If, however, this part of currency reform is allowed to rest until after a renewed Republican success in 1900, the present Congress during its short session would feel that the greater part of the political risk in opening the banking question would be removed. On the other hand the short session of any Congress is not a very favorable time for passing any but the appropriation bills. Moreover the currency question is probably the only question that during the coming session will be of sufficient importance to devide time with the policy to be pursued in the government of the newly acquired dependencies and the conduct of the war in the Phillipines. It

may become of great importance to the Administration and to the majority in Congress to have some other topic of discussion of sufficient importance to prevent public opinion being fixed exclusively on the foreign policy of the country. Therefore the next session may be a most favorable time to take up not only that portion of monetary reform which relates to the gold standard, but also that which relates to the substitution of a scientific bank currency."

"It is believed that Congress will lay a solid foundation for a future financial structure if at its coming session it places the gold standard on a basis which will remove all doubts of its future stability, and increase the present National bank currency to one hundred per cent of the bonds deposited, at the same time providing for the refunding of the present national debt."
—Bankers' Magazine, Nov.

Notes

Gage's assistant, Dawes, makes statements intimating that the limit for the gold reserve will be very much increased in the new laws. This would bring about bond issues much sooner.

Stephen B. Elkins, after a recent interview with Mr. M'Kinley, said that the President was preparing for his message a very pronounced advocacy of new currency legislation.

There is just one thing that may be considered definite about the intentions of the currency reform leaders and that is that they are after profit: another thing, probable, is that they want that profit to be immediate.

M'Cleary Bill M'Cleary is a prominent candidate for the chairmanship of the committee on banking and currency.

Currency Reform arguments in great abundance may be had from "The Sound Currency Committee of the Reform Club," of 52 William St., New York. They will be found much to resemble in consistency the sponge. They occupy much space, are "elastic," intricate, and hard to see through; yet rather hollow, and light when hefted. The resemblance further is made out with the fact that they are prepared by literateurs of a class sometimes vulgarly described as "spongers."

For useful ideas read the entire speech of Ex-Congressman Joseph H. Walker in the last issue of the Record for the 55 th Congress.

HANNA-OVERSTREET BILL

DECEMBER FIRST. The complete new House Bill, asserted to be the Atlantic City Plan, which, by the way, was furnished the Faithfully Pledged caucus committee by H. H. Hanna, the banks' lobbyist, for whom it was written by Representative Jesse Overstreet,—was printed in all the Conservative Class and large dailies Nov. 29.

By this bill a gold reserve of 100 millions is segregated, plus an independent Treasury fund of 50 millions, to maintain which 1-20 year bonds at 3 per cent or less are authorized.

Our 317 million "United States Notes" and 89 million "Treasury Notes of 1890" are made legally redeemable in gold; and a permission is given which it is expected the Secretary will use to change these notes wholly into larger denominations for circulation among the banks and wealthy classes. The 395 million Silver Certificates, 71 million Silver Dollars, and 100 million other currency are left irredeemable except at the Treasury's option. It is directed that the Silver Certificates shall be changed into $1, $2, and $5 sizes, for circulation among

The Great Unwashed, or "retail hands," if printed. This is an ugly thing politically.

The purpose of these changes is to limit possible Treasury raiding.

All gold redeemable notes paid in are to be retired and not re-issued except for gold. Par value issue and $25,000 banks are permitted.

The hidden germ-kernel of the Bill is a section which substitutes for the one per cent tax a tax of one-fifth of one per cent on the total of the capital, surplus, and undivided profits of the banks. This is a thing of genius. The aggregates for U. S. national banks are: capital, 625 million; surplus, 250 million; undivided profits, 95 million; making nearly 1000 million in all. Their circulation is at present 240 million, so that this is apparently a 1 per cent tax.

But,—as the banks are permitted to issue bonds up to their paid up capitals, any bank wanting to make money, and not be knocked out by competition, will find it not only desirable, but necessary as well, to issue up to its full capital. This will throw on the market an immediate demand for about 400 million in bonds.

The great bulk of the aggregate surplus

lies in metropolitan banks whose enormous capital sometimes nearly all bears the name "surplus," and who take little interest in note issuing. To the small country bank, which most highly values the privilege, the tax will amount to about 1-4 per cent and it can afford the values under Gage's Plan, page 28, on full capital. As issuing anything less than full capital will be unnecessarily costly by comparison, the demand will be something enormous.

To new banks, recapitalized banks, or banks having little or no surplus, the tax is practically 1-5 of 1 per cent, and they can afford within three per cent of the following maximums, which have been cast from 1899 dates by 6 per cent sinking funds, to conform with other figures in this book:

Threes	1908	118.4	Fours	1907	123
Fives	1904	119.7	Fours	1925	148.1

The bill provides the cause of many new banks. The National bank Act permits recapitalization. The National City Bank is already taking steps to re-capitalize at the hitherto unheard-of figure, $10,000,000, in place of $1,000,000. It owns $15,000,000 in bonds now used to secure some $13,000,000 Government deposits. These banks

will make the prices.

Another consideration, theoretical, yet one that history shows to be of immense importance in business, is the inflation.

There are out about 800 millions par of bonds not used to secure circulation. At the foregoing prices they are, trouble considered, practically non-interest-bearing, as much as if their terms were out. Of them 300 million are in use by recognized banks of all sorts, as a highly negotiable two per cent paper, half investment, half currency. Probably another 300 millions is in allied institutions for similar use. And we think we are fair in saying that at least 600 million are in hands sufficiently intelligent to sell out when they have become non-interest-bearing, especially considering their fluctuating price, recent and yet to come.

Used to secure notes, we will have a supply of 2,600 millions in money of all kinds filling the demand now adjusted to 2,000 million. Reduced, we will have $2.60 in the place of $2., or $1.30 to do the buying $1 does now. This is wholly in accordance with the economic and historical custom of money, which is a commodity whose

value depends solely upon, and exactly is determined by the proportion of supply and demand. It logical to believe that these great profits in bonds and banks cannot come, like perpetual motion, from nowhere.

It would therefore be the part of discretion, should this bill pass, to change money into property and contract debts. In any event the decrease in purchasing power of money likely to be greater than current interest.

When the inflation is felt the property and debt should be disposed of. When, after a business world has been keyed to an inflating currency and has become saturated with speculation, when that inflation stops there is a depression, in which money advantageously can be invested. According to Mill's law, and American conditions this should be in 1904.

THE LEADERS' PROGRAM

DECEMBER ELEVENTH. The Hanna-Overstreet Bill unanamimously was adopted by the Republican House caucus, well attended. No opposition developed.

and it is evident that the anti-bank-scheme men are all retired or subdued. Also, the Reed Rules have been adopted, by which the Speaker is enabled to recognize whom he pleases and to limit debate.

The bill was introduced on the 15th by Mr. Overstreet as House Bill No. 1 and a special rule allowing seven days' debate with vote on Monday Dec. 18 was adopted by a STRICTLY PARTY VOTE OF 163 TO 144. A snap session for amendments will be allowed Saturday evening, in which anything then considered necessary for the bill's passage will be permitted. In the Senate it is expected that a refunding and other profitable amendments will be tacked on, all of which will be accepted by a Conference Committee of Faithfuls appointed by Henderson. These are given as the Reform leaders' expectations, not as ours.

OUR OWN OUTLOOK

The strictly partisan vote upon the rule is most significant. The majority is not unscrupulous nor devoted to the national banks, but ignorant, prejudiced, and party-blind "farmers" who believe, as they have been told, that this bill is chiefly to establish the Gold Standard, and that anything done in the name of the Republican party cannot be but holy. Were it denounced by Repubicans, as the M'Cleary Bill was, it would have poor chances. But they will not believe Democratic exposures, both themselves and the Democrats being badly prejudiced.

With no Republican opposition the Reform outlook is very bright. Yet the fact must be borne in mind that the measure is very nervy and its passage would be a remarkable thing. There are many unseen influences that will work against it. For instance we know of several Outside Bankers who are now in Washington, sawing wood. The great conservative banks issue a minimum of circulation and oppose all schemes. Nearly all large banks oppose the new taxing plan. Bonds in large quantities are difficult buying.

The price of New Fours is now 6 points above a normal price. Buying is therefore risky. We do advise this, however:—that margins be placed with brokers for the immediate buying of bonds upon its passage. Bonds are slow moving, and an enormous profit may be made before they assume permanent values. The ethics of banking

will forbid large bank purchases until the bill is signed. We advise threes or a scattering on account of indefinite Senate action.

On the whole we think chances for much better than those against, although only speculative chances. The influence of money is behind the measure, and money tells.

The New Senate Refunding Plan aims to change market values into note-securing par values, with profit. Just how and how much are now indefinite. Discussion next issue.

NOTES

Registered Bonds are used by national banks. But coupon bonds may be sent in for exchange for registered without charge at any time.

Among "Currency Reform Leaders" are Representives Babcock, Dalzell, Tawney, Sherman, Payne, and Henderson, Senators Aldrich, O. H. Platt, T. C. Platt, and Elkins.

Prominent among those believed to be behind the Movement are the Rockefellars. They seldom make a miss. Two per cent of the profit they can make with their new ten million dollar bank alone would procure the influence of all tne majity's leaders and passage of the bill.

The Gold payment of bonds authorized by this bill may bring prices a half-point or point nearer banking maximums. Talk of a greater rise applies to investment values, hereafter eliminated.

EASILY PASSED

JANUARY TENTH. The House Bill passed Dec. 18 by a vote of 190 to 150, all amendments having been prevented by skillful floor practice. The Democrats showed wonderful brainlessness. The outlook for an asset banking scheme, which this bill prepares for, is encouraging. No sensible opposition showed up against the bill.

The majority memberships of the newly announced Senate committees on Rules and Finance are solidly of National Bank men.

MARKET VALUE REFUNDING PLAN

A set of substitute provisions recently offered by Senator Aldrich eliminate the franchise tax and give in place a one-half per cent tax, par issue irrespective of market price, and the refunding of the debt with a 30 year 2 per cent bond, upon the basis of par in exchange for old bonds at the prices upon which they now are earning "2 1-4 per cent and par."

The maximum banking value of thirty year twos is 119.27. Supposing the bases of change be calculated with compounded

2 1-4 per cent sinking funds, we have the following maximums for the exact terms of the bonds from February 1, 1900:

	Present Banking Worth	Basis for Change	Value by Change
Threes Aug. 1908	109.1	105.7	126.1
Fours July 1907	114.1	111.8	133.4
Fours Feb. 1925	130.7	133.2	158.9
Fives Feb. 1904	111.6	110.4	131.7

The third column shows the increases in value expressed as if the old bonds still were used. Each old bond buys one and a fraction of the new ones, the fraction enhancing the profit.

This substitute appeases banks owning old fours and fives. It was the newer class of banks that worked up and paid for Currency Reform. It has the disadvantages of enlarging the principal of the public debt, and of requiring the banks to invest for the profits of a long, uncertain future.

THE PROGRAM

The substitute is now in committee. Debate begins Jan. 15. It is asserted that three weeks will be allowed. We think it will be pushed through more promptly.

Those of our subcribers who have purchased bonds and profited we advise to

hang on. Don't let them scare you; there is no danger now. The World, we know, favors Currency Reform. The noise over the City Bank is probably the grinding of some private ax. No free silver paper dares oppose inflation. Publishers of influential newspapers are rich and nearly all interested in banks. The Senate would not notice denunciation anyway.

EFFECTS ON WALL STREET

The change of market values into note-securing par values will cause an immediate increase of $50,000,000 in the currency based upon bonds now on deposit. The substitute will have the same effect upon bonds used as investments as the House Bill, though in a slightly reduced degree.

The bulk of this money will be sent to Wall Street for bonds and stocks. It also may displace gold, which will be sent to Europe. We do not advise speculation to inexperienced persons.

The issue of notes on new bonds must be preceded by purchases of bonds, shown by the World, Times, and Wall Street dailies. It takes a month to get the notes out.

DAWES'S LITTLE SUGGESTION

Comptroller of Currency Dawes some time since offered the plan of securing the much discussed "elasticity" by permitting banks to issue to par when they wanted to

pay 2 or 3 per cent interest on the extra issue, at the same time reducing the tax to 1-2 per cent for the frankly stated purpose of furnishing the profit which he perceived was their chief desire. The suggestion was promptly and vigourously rebuffed by the leading Reform banks. It will cause no trouble.

INVESTMENTS OF JOHN D. AND J. P.

"...If it were necessary, this institution [City Bank] could, it is said, borrow as 100 million of Govenment bonds, not by any tedious or protracted begging, but within two or three days. The vast interests represented by the Standard Oil name and by some of the Sugar Trust people possess millions in Government bonds, and as these interests really own the City Bank they are always willing to lend their securities to that institution. It borrowed recently without difficulty and in the course of only two or three days $40,000,000 in Government bonds, borrowed them from institutions and corporations identified with the Standard Oil and Sugar Trust people."—Holland's Correspondence, Philadelphia Press, December 22.

The Gage investigation brings out a letter from T. C. Platt asking Gage to get the Post Office's funds deposited in the City Bank. Platt is the active head of the Currency Reform movement.

THE CONFERENCE BILL

MARCH FIRST, 1900. The Senate Substitute was passed by the Senate February 15 with a vote of 46 to 29. At a conference of Senate and House committees a compromise bill was formed. This will be ratified next Teusday, March 6, and, undoubtedly, soon will become the law.

The new arrangement combines the House Bill's currency provisions described on page 41 with the Senate's refunding plan and half-cent tax: but with the exception that the premiums on the old bonds, NOT GREATER THAN the sums with which they earn 2 1-4 per cent and investment, will be paid not in new bonds but in cash, thus lessening the gold reserve, instead of enlarging the principal of the public debt.

By the phrase "not greater than" profits in the refunding are left dependent on the ideas and actions of the uncertain Mr. Gage. Hence the banks, necessarily conservative, fear to bid up the prices of the bonds affected, the threes, old fours, and fives, to a very high point, though several one hundred thousand dollar blocks have changed hands recently. They fear the in-

fluence of New York's yellow sheets. But, from knowledge in our possession, not herein printed, we assure subscribers that neither the World nor the Journal will get up any trouble before the refunding basis is announced. The sole use which this phrase can have will be the enabling of any person, persons, or corporation, foreknowing the prices Mr. Gage will set, to buy up all the bonds purchaseable at the present low prices. Bonds are not high enough to Bear, and that hardly could be done in bonds without attracting attention; besides making riotous the small backers of Currency Reform. It is therefore highly probable that Gage will give all the profit permitted, saving, perhaps, some two or five points for effect.

The fate of the Cleveland Fours, which are not to be refunded, is definite. As the tax reduction applies only to two per cents they benefit only by par issue. Their value being practically safe they are now at 138.

The prices of other bonds March 1 were:

Twos, Optional, 102; Threes, 112;
Old Fours, 118; Fives, 116.

There is yet an enormous profit in these bonds,—as much as has been. Buy.

THE FUTURE'S PROMISE

It may take six months for the bonds to come fully up to values normal under the new conditions: at the end of which time new projects may again put them up.

The new bonds eventually will market at about 115. Upon that price they will bring 1 per cent for investment, and this rate is calculated to take out of investment hands almost as many as would 1-4 per cent. An inflation of the currency by at least 400 million, with good chances of something like 700 million, may be counted on as a certainty. It may in part go to drive out and replace gold, according to the Free Silver theory; but the amount of gold in this country is small (700 millions) and all needed at home. Substantially all the new bank issue will exert itself to water our own money volume, gradually cheapening the purchasing power of dollars, increasing the price of goods.

Did the people understand that they were thus being robbed of from fifteen to thirty per cent of the value of every dollar owned it might put an end to Currency Reform. There is, however, small probability that they will be informed of it. But, contrari-

wise, their dissatisfaction with currency expansion,—which, while making prosperity for the few in a position to put up their prices, causes the many not so placed to suffer,—will be expressed by again rejecting Free Silver.

No more Reform will be attempted at the present session of Congress. The results with this Congress so far have been gratifying beyond the most sanguine expectations, and when it again assembles after the election a strong and far-reaching Reform will be put to it with all possible force.

END OF
TITLE